

**AUDIT COMMITTEE**  
**21 MARCH 2013**  
**INTERNAL AUDIT**  
**2013/2014 INTERNAL AUDIT ANNUAL PLAN**

Report from: Internal Audit

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**Summary**

To advise Members of the 2013/2014 Internal Audit Plan.

**1. Budget and Policy Framework**

1.1 Decisions regarding accounts and audit issues fall within the remit of this committee.

**2. Background**

2.1 Every year Internal audit devise a proposed Internal Audit work plan for the financial year, which is presented to Audit Committee for approval. The Committee then receive outturn reports against the agreed programme at each meeting.

**3. Advice and analysis**

3.1 The detail as to how the proposed work programme has been determined is outlined in **Annex A**, which is the 2013/2014 Internal Audit Plan Approach.

3.2 The proposed plan for 2013/2014 is set out at **Annex B and Annex C**. The plan records the proposed audits and other key work activities, and the time allocated to each area of planned audit work.

3.3 The planning process involves reviewing audit assurance provided over the previous two years, mapped to both the risk register, shown at **ANNEX D**, and the key corporate systems, shown at **ANNEX E**.

#### **4. Risk Management**

- 4.1 There are no risk management implications arising directly from this report. However, failure to deliver the internal audit programme could result in increased external audit fees and adverse comment from the external auditors.

#### **5. Financial and legal implications**

- 5.1 There are no financial or legal implications arising directly from this report.

#### **6. Recommendations**

- 6.1 Members are asked to approve the 2013/2014 internal audit programme.

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#### **Background papers**

None.

### **Internal Audit Plan Approach 2013/2014**

The Annual Audit Plan is developed in order to provide independent assurance to Medway Council on the:

- effectiveness of internal control
- management of risk
- probity and compliance with legal and regulatory requirements
- appropriate pursuit of economy and efficiency.

An audit opinion is provided at the conclusion of most audit assignments and then an overall audit assurance is provided in the Internal Audit Annual Report which is presented to the first Audit Committee of the financial year. The Annual Report includes an overall audit opinion on the four key areas noted above, and highlights key issues arising in year.

The assurance provided by Internal Audit is reasonable but not absolute, and is drawn from:

- Audit assignments performed in current year
- Audit coverage and opinion from the previous two years
- Management response to audit recommendations
- Control issues identified as a result of investigations undertaken
- Control and risk advice work undertaken as a result of a request by management
- Feedback from external audit
- The Council's risk management process.

The proposed Annual Plan for 2013/14 includes an indicative scope for each audit, although the scope will be reviewed with management prior to the audit being undertaken. This proposed plan has been discussed and agreed with Senior Management and External Audit. There has also been liaison with relevant professional groups, including Kent Audit Group, the London Audit Group, and the Home Counties Chief Internal Auditors Group.

Once the potential audits were identified, based on what would be necessary for providing the required annual audit opinion, the resources available within Internal Audit were reviewed to ascertain whether there were sufficient resources to deliver the identified audits. I can confirm that there are sufficient resources within Internal Audit, both in terms of number of audit days and expertise within the team, to deliver the proposed plan.

#### **Required Elements Of The Plan**

There are two annual audits relating to governance issues, and these are included on the plan.

The Annual Plan has time allocated for completion of 2012/13 audits, as well as follow-ups of the audits performed. These follow-ups are key in ensuring that there is evaluation and confirmation of whether the issues and risks identified during the audit are appropriately addressed or mitigated. The

follow-ups also include a review of the original audit opinion, which will be reported to Audit Committee.

### **Probity Reviews**

A significant proportion of the Plan has been allocated to probity reviews, and will focus on two key areas; schools and local income management.

Probity reviews are short audits of particular locations, focusing on financial management arrangements. An output will be prepared at the conclusion of each review, highlighting any probity issues identified, and including an action plan for addressing any identified control weaknesses. The output will be shared with management and presented to Audit Committee.

At year-end a summary report for each of the two areas, schools and local income management, will be prepared. These summary audit reports will provide an overall opinion on the arrangements in place, and include a record of the key issues identified. The intention is to ensure that significant issues arising, and identified points of good practice, are shared appropriately, through liaison with management, circulation of the summary reports, and presentations to relevant parties.

### **Fraud Resilience**

Days have been allocated to fraud related work, which includes not only work such as the National Fraud Initiative, but also proactive work through the review of processes and procedures, and liaison with managers. Work undertaken in relation to fraud resilience is largely driven by the objectives and targets set out in the Fraud Resilience Strategy.

We also undertake investigations as they arise. Whilst the planned audit work is scheduled, and resources can be planned for its delivery, investigations of internal fraud are by their nature unplanned and the resource required to complete the investigations is difficult to estimate. Fraud referrals can be received as a result of an audit, or through a referral that may be made through the Whistleblowing Policy.

The annual plan provides a resource allocation for investigations. If the allocated days are not required then the days will be re-allocated for undertaking additional proactive probity reviews. Should investigations require more resource than is allocated then the potential impact on the annual audit plan will be reviewed, and if there is any need to amend the plan then a proposal will be made to Audit Committee.

### **Planned Audits – Cyclical and Risk Based**

Following identification of other demands on the Internal Audit resources, there remain 620 audit days available for delivering full audits of key systems within the Council. A documented process is followed to determine the audits to be included on the Annual Plan.

Internal Audit provides assurance on the management of the key risks as identified by management in Medway Council's Corporate Risk Register, and also provides assurance on the internal control arrangements for the key corporate systems and governance areas.

In order to determine the proposed audit plan for 2013/14 the following issues are considered:

- The level of coverage in previous years
- The audit opinion of the audits performed
- Medway Council's Corporate Risk Register
- Results of Fraud Risk Assessment and Action Plan
- The outcomes of the governance audits required annually
- Issues identified in minutes of Committees
- New or changed Council responsibilities
- Projects and developments
- Changes to key personnel
- Assurance provided by other review agencies.

The planning process involves mapping the audits undertaken over the previous two years plus current to the risk register, and also to the identified key corporate systems and processes. Audits may appear more than once on these tables to show where assurance is being provided.

Through the 2013/14 year we will continue to work on identifying and documenting other providers of assurance on the management of key risks and key systems so that it is evident where the Council rely on Internal Audit for assurance, and where the main source of assurance is from other sources.

### Cyclical Audits

There is a relatively regular and widespread pattern of audits in relation to cyclical work, as the risks relating to these systems remain broadly static and therefore the resources allocated are consistent.

There are a number of financial and non-financial systems that are audited on a cyclical basis in order to provide regular assurance on processes where audit have determined that the materiality is high and the inherent risk is significant, but previous audit history has demonstrated that the controls are robust. These audits are undertaken focusing on the key risk areas. The approach for the financial audits is also adapted to ensure that the requirements of External Audit are met so that they can place reliance on the work of Internal Audit and thereby reduce the time and cost of the end of year audit.

Some audits of key financial systems are undertaken each year on behalf of External Audit. Where this is the case we give consideration to limiting the scope and approach of the audit to that required by the External Auditor.

## Risk Based Audits

Internal Audit looks to provide assurance on key control systems that management place heavy reliance upon for delivering Council objectives.

The starting point for identifying auditable areas is the Corporate Risk Register, which details those risks deemed by management to be most significant to the Council, in terms of residual risk. The risk-based work undertaken in previous years has been mapped to the Corporate Risk Register to demonstrate the level of coverage provided in the relevant areas.

In order to plan the use of resources for future audits the historical coverage is considered alongside key developments and changes both within and external to the Council. Taking all these factors into account Internal Audit work closely with stakeholders in order to determine where to focus audit resources.

The level of assurance that Internal Audit can provide on the management of each strategic risk depends on the nature of the identified risk, and for this reason the coverage of the corporate risks is not evenly spread. Each year we provide assurance on the quality of the data used to measure and monitor the management of one of these corporate risks.

Internal Audit can also provide consultative advice to management to assist with the identification and development of control procedures to mitigate the risk further.

As the corporate risk register is constantly under review and subject to change the audit focus will vary over time, and potentially in year. Should there be any relevant changes made during 2013/14 the Annual Audit Plan may need to be revised to ensure that audit resources are being focused most appropriately. Any proposed revisions to the plan will be presented to Audit Committee for approval.

## **Audit Process**

The Internal Audit Manual documents the key stages of the audit, including management agreement to the scope, timing and approach to the audit, and also management agreement to the report and ensuing actions. The manual also sets out the process for Internal Audit to follow up on the actions arising.

The Public Sector Internal Audit Standard (PSIAS) comes into force 1 April 2013. PSIAS seeks to provide a reference for all public sector auditors, and is based on the CIPFA and IIA Standards that we used when preparing our Manual. We have undertaken an initial review of our work processes and Manual in light of PSIAS, but will conduct the full assessment as part of the annual Audit Effectiveness Review which is reported at the June meeting of the Audit Committee.

The Audit Team will continue to review the procedures to see whether there are opportunities to further streamline the current processes.

### **Additional Work for 2013/14**

#### Audit Presence

The profile of Audit Services is maintained and raised through the delivery of the planned audit work, and the provision of ad-hoc advice and guidance across the Council regarding risk, control and governance issues.

The Audit Services Website has been launched and opportunities for further development of the website will be considered in 2013/14.

Internal Audit has delivered training sessions to:

- Council staff involved in the current NFI exercise
- Headteachers and School Governors regarding fraud resilience in Medway's Schools
- Service Managers regarding fraud resilience.

#### Analytical Work

Inbuilt into our audit planning process is consideration of how data might best be located, extracted and analysed to provide the required assurance for the minimal audit resource input and minimisation of disruption to management. We are building up access rights to key shared folders across the Council to maximise the possibility of accessing data directly. Internal Audit also has access to IDEA, an audit tool with which to interrogate large volumes of data.

### **Staffing Issues**

The Internal Audit team is comprised of two Principal Auditors and four Auditors. The two Principal Auditors are both Chartered Members of the Institute of Internal Auditors and as such undertake Continuing Professional Development.

We have sought to ensure that the team has a breadth and depth of knowledge and experience and training in specific audit areas is provided as necessary. We have also sought to ensure that auditors receive an appropriate professional grounding to ensure the team has a breadth and depth of experience, and up to date knowledge of current issues. One auditor has an accountancy qualification, one auditor completed their training for the IIA Certificate in Internal Audit and Business Risk in 2012/13, and another auditor is due to complete this same training in 2013/14. All the team have the opportunity to attend the Kent Audit Group Conference, and the Audit Services Manager or Principal Auditors attend meetings of the London Audit Group, Home Counties Chief Internal Auditors Group and Kent Audit Group, which provide forums for knowledge sharing. There are monthly team

meetings and these are occasionally used for more formal training events, the most recent being training regarding how to handle allegations of fraud.

Alison Russell  
March 2013



**2013/14 Annual Internal Audit Plan – Explanatory Notes**

**Annex C** sets out the proposed Audit Plan for 2013/14, whilst **Annex D and Annex E** demonstrate the assurance coverage of Internal Audit over the preceding three years.

These explanatory notes seek to highlight key points of interest in the proposed plan.

Income

The proposal is to undertake the audit of local management of income in a similar way to the school probity audits. The intention is to undertake a series of reviews of income streams, providing a short output following the completion of each review. At year-end a full report will be prepared, with an overall opinion on the local management arrangements for income. The individual outputs and the full year-end report will be provided to Audit Committee. The proportion of resources required for this piece of work is quite high, but given the current economic challenges that the Council is facing I consider it appropriate to focus resources on ensuring that the Council is ensuring that it is receiving all income due.

Expenditure

Assurance over the management of expenditure is provided through a number of the audits included in the proposed plan. Key sources of assurance will be the audit of procurement, social care payments, capital projects and grant payments.

Value for Money

Value for money is a factor considered in all the audits undertaken, but is a particular focus in our audits of procurement, Better for Less, and also the audit of grants payments which provides the opportunity to assess the arrangements the Council has in place for ensuring the desired outputs and outcomes are achieved as a result of the grant payments made.

Anti-Fraud and Corruption Audit

The plan does not include an audit of Anti-Fraud and Corruption, something that has previously been undertaken annually. The reason for this is that Audit Services, and the Head of Internal Audit, have become increasingly involved in improving the level of fraud resilience across the Council. As such it is increasingly difficult for the team to undertake an independent and objective audit of the procedures in place for mitigating the risk of fraud. The Public Sector Internal Audit Standard notes at 1120.A2:

“Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity”.

This issue has been discussed with the Kent Audit Group and it should be noted that no other Local Authority in Kent undertakes an annual Anti-Fraud and Corruption Audit.

Assurance is provided through a number of sources:

- Every internal audit undertaken includes consideration of the level of fraud risk and how it is mitigated. Any issues identified relating to the management of this risk are highlighted in the individual audit report.
- PKF, as the Council's External Auditor, provide annual assurance over the anti-fraud arrangements in place across the Council.
- In 2011 the Council commissioned a piece of work from PKF to measure the Council's fraud resilience, the outcome of which was reported to Audit Committee
- The Fraud Resilience Strategy presented to Audit Committee in March 2012 provides a roadmap for enhancing the current fraud mitigation arrangements. The Strategy is renewed annually, and Audit Committee receives twice-yearly updates on the progress being made.
- The cyclical audit makes provision of assurance over compliance issues, and periodically this would include reviews of fraud-related processes and policies
- Assurance over the Council's arrangements is also gained through the results of the Annual Fraud Survey.
- Consideration could be given to commissioning an external review within five years to provide independent assurance on the Council's arrangements.

#### Probity Audits

The programme of probity audits in Medway schools continues, with the expectation that given our increased knowledge of the area gained over 2012/13 our reviews will be focused more effectively on the key areas of risk.

#### Follow Ups

There is a significant allocation of time for the follow up of audits. This highlights the significance we place on management response to issues identified through delivery of the internal audit plan. The overall audit opinion is re-considered following completion of follow ups of audits where the original opinion was "insufficient" or "uncontrolled", and the annual report includes a table showing the "direction of travel"

## 2013/14 Audit Plan

	Quarter	Detail	
<b>Completion of 2012/13 audits</b>			
Wrap up of outstanding audits		1	
<b>TOTAL 2012/13 Audits</b>			<b>50</b>
<b>Follow Ups</b>			
Blue Badges Follow Up		1 Original Audit Opinion - Uncontrolled	
Business Continuity Follow Up		1 Original Audit Opinion - Uncontrolled	
Insufficient and above	01-Apr	Shorter reviews to confirm action since audit	
<b>TOTAL Follow Ups</b>			<b>100</b>
<b>Annual Governance Audits</b>			
Risk Management		An annual review of the Council's progress in ensuring a consistent method for the identification, evaluation and recording of risk.	
		4	
Corporate Governance		4 An annual review of the Governance Statement prepared by management	
<b>TOTAL Governance Audits</b>			<b>20</b>
<b>Financial Audits</b>			
<i>Annual</i>			
Local Business Rates		4 Need to determine whether there is any work required before Q4 given the new arrangements	
Housing Benefit		4 Standard Annual Review	
Housing Rents		4 Standard Annual Review	
Council Tax		4 Need to determine whether there is any work required before Q4 given the new arrangements	
<i>Cyclical</i>			
Income	2-4	Series of targeted reviews and then a report based on these findings providing an overall opinion	
Procurement		2 Audit of purchasing compliance and pursuit of value for money	
Social Care Payments		3 Audit of the management of payments through the new Social Care system	
Payroll		2 Loans and/or overpayments	
PCIS Compliance		3 Audit of compliance with PCIS requirements	
<b>TOTAL Financial Audits</b>			<b>340</b>
<b>Probity Reviews</b>	1, 2, 3 & 4	Probity reviews in schools and other satellite sites	
<b>TOTAL Probity Reviews</b>			<b>240</b>
<b>Risk audits</b>			
Social Fund		1 Audit of arrangements for managing the social fund - responsibility for which transfers from DWP 1/4/13	
Better for Less		3 Audit of whether planned benefits are identified, monitored, measured and reported	
Health Commissioning		3 Audit of new Health Commissioning processes	
Foster Care		3 Management of all key risks in this area, including CRB and data protection issues	
Capital Projects		2 Review of selected capital projects	
Grant Payments			
	2 & 4	Series of reviews of management of grants made to voluntary and business sectors, and then a report providing an overall opinion	
Data Quality - one Risk Sched		2 Focus on audit of Risk Schedule relating to Equality and Diversity. Review data sources, their relevance and accuracy, and reporting mechanisms	
Asset Management Divestments		1 Audit of process for	
DBS - previously CRB/Vetting		1	
<b>TOTAL Risk Audits</b>			<b>280</b>
<b>TOTAL ALLOCATED AUDIT TIME</b>			<b>1030</b>
Contingency			55
Investigations & Grant Verification			
<b>OVERALL TOTAL DAYS ALLOCATED</b>			<b>1085</b>



Audits identified from Risk Register

ANNEX D

Risk 2012/13	Risks 13/14	Corporate Priority	2010/11 Audit	2011/12 Audit	2012/13 Audit	Proposed 2013/14
<i>Finances - Longer Term</i>	<b>Finances - Longer Term</b>	Giving Value for Money				
<i>Downturn in the economy</i>	<b>Downturn in the economy</b>	Giving Value for Money			Data Audit S Capital Programme	<b>Capital Projects</b>
	<b>Childrens Social Care</b>	Children and young people having the best start in life			CRB/DBS x	<b>Social Care Payments</b> <b>Foster Care</b>
<i>Keeping vulnerable young people safe and on track</i>	<b>Keeping vulnerable young people safe and on track</b>	Children and young people having the best start in life	Security of Confidential Records I SEN Allocation of Resources S TPU - Home to School transport U	TPU - Home to School Transport (f/up) S		<b>Foster Care</b>
<i>Equality and Diversity</i>	<b>Equality and Diversity</b>	Putting our customers at the centre of everything we do		Blue Badges U	Blue Badges FU I	<b>Data Quality Audit</b> <b>Blue Badge Follow Up</b>
<i>Delivering Regeneration</i>  <i>(Services/Facilities)</i>  <i>(Events)</i>	<b>Delivering Regeneration</b>	Everyone benefiting from the areas regeneration	Section 106 Planning Arrangements G HRA Grants  Highways Maintenance (f/up) S Rochester Christmas Market I	HCA Grants  Waste Management (initial) Roch Christmas Market (f/up) I	HCA Grants Asset Divestments x Partnerships x Capital/Projects Waste Management I Events S	<b>Capital Projects</b> <b>Grant Payments</b>
<i>Maximising outcomes for Looked After Children in the context of increasing demand</i>		Children and young people having the best start in life				
<i>Adult social care demographics</i> <i>(Adult Safeguarding)</i>	<b>Adult Social Care Transformation</b>	older and vulnerable people maintaining their independence	Security of Confidential Records I		CRB/DBS x Personal Budgets DR	<b>Social Care Payments</b>
<i>Government Changes to Local Authority responsibility for Schools</i>	<b>Government Changes to Local Authority responsibility for Schools</b>	Children and young people having the best start in life			Academies I	

<i>Performance Management</i>	<b>Performance Management</b>	Giving value for money	Council Plan Monitoring I	Council Plan Monitoring S	Data Quality S	<b>Data Quality</b> (Ongoing Liaison)
<i>Procurement</i>  <i>(Energy)</i>	<b>Procurement</b>  <i>(Energy)</i>	Giving value for money		Waste Management	Procurement X Waste Mgt I Maintenance Contracts X	<b>Procurement</b>
<i>Treasury Management</i>		Giving value for money	<i>Civic Centre Fuel Pumps</i> U			
<i>Delivering better for less transformation</i>	<b>Delivering better for less transformation</b>	Giving value for money	Treasury Management Strategy	Council Tax and NNDR fol up G		<b>Better for Less</b>
<i>Changes to Health System</i>	<b>Public Health Transition</b>	Putting our customers at the centre of everything we do			Health - New Governance Arrangements S	<b>Health Commissioning</b>
<i>Transition to new provider of Mental Health adult social care services</i>		Putting our customers at the centre of everything we do				
<i>Business Continuity and Emergency Planning</i>		safe, clean and green Medway	Business Continuity Planning U			<b>Business Continuity FU</b>

Key:

U = Uncontrolled

I = Insufficient

S = Satisfactory

G = Good

X = not yet complete

= completed, no audit opinion

## 2013/14 Proposed Cyclical Audit Plan

## ANNEX E

	2010/11	2011/12	2012/13	Proposed 2013/14
<b>Key Financial Audits</b>				
<b>Asset Management</b>				Asset Mgt - Divestments
<b>Bank Accounts</b>		Schools Bank Accounts I		School Bank Account FU
<b>Cash and Banking</b>	Imprest Account (f/up) S	Cash and Banking S		
<b>Creditors</b>	Creditors I Care Director Payments I		Creditors DR	Social Care Payments
<b>Council Tax</b>	Council Tax G	Council Tax G	Council Tax X	Council Tax
<b>Counter Fraud</b>	Tenancy Fraud S	Blue Badges U	Parking DR	CRB/Employment Vetting Social Fund Blue Badges FU
<b>Debt Management</b>	Care Director Income I	Debtors I		Debtors FU
<b>Local Financial Controls</b>	Medway Park Parklands Silverbank Corn Exchange U	Halling School School Probity Audit School Inv Sheltered Housing Inv Satellite Site Inv	School Probity Review Programme I Academies DR Corn Exchange Follow Up S	Probity Review Programme Income individual reviews Grant payment individual reviews
<b>General Ledger</b>		General Ledger S	General Ledger Follow Up S	
<b>Housing Benefits</b>	Housing Benefits S	Housing Benefits S	Housing Benefits X	Housing Benefits
<b>Housing Rents</b>	Housing Rents I	Housing Rents I	Housing Rents Follow Up S Housing Rents DR	Housing Rents
<b>Income</b>	Direct Debit Income S Homelessness Rental Income I Leisure Membership Care Director Income I Section 106 Agreements G	Markets (f/up) I Blue Badges U	Parking DR Grant Mgt/Accounting DR Markets Income Follow Up S	Income Individual Reviews
<b>NNDR</b>	NNDR G	NNDR G	NNDR X	Local Business Rates
<b>Payments</b>	Credit Card Refunds I Care Director Pay I Concessionary Fares S		Grant Mgt/Accounting X	Social Care Payments Social Fund Grant Payments Capital Projects
<b>Payroll</b>	Payroll S	Satellite Sites I		Payroll
<b>Pensions</b>	Payroll Pensions G			
<b>Petty Cash/Imprest Accounts</b>	Imprest Account (f/up) S			Income Individual Reviews
<b>Procurement</b>	Council Fuel Pumps U		Category Management X	Procurement

<b>Contract Management</b>	Vehicle Fuel		TPU (f/up)	S	Waste Management	I	
	TPU	U			Maintenance Contracts	X	
	Highways Maintenance	S					
<b>Stock Control</b>	Council Fuel Pumps	U			Council Fuel Pumps FU	S	Income Individual Reviews
<b>Treasury Management</b>	TM Strategy	G					
<b>VAT</b>	VAT	S					
<b>BSD Audits</b>							
<b>IT</b>	IT Security	S			IT External Assurance	S	
					Data Quality	S	Data Quality
<b>IT Systems</b>	Care Director	I			IT External Assurance	S	
					iWorld Access Controls	DR	
<b>HR</b>					HR Data Security	S	
<b>Health and Safety</b>					Events	S	
<b>Governance</b>							
<b>Corporate Governance</b>	Corporate Gov	S	Corporate Gov	S	Corporate Gov	X	Corporate Governance
<b>Fraud Prevention</b>	Prevention F&C	I	Prevention F&C	S	Prevention F&C	X	Fraud Resilience Strategy
<b>Risk Management</b>	Risk Management	S	Risk Management	S	Risk Management	X	Risk Management
<b>Business Continuity</b>	Business Continuity	U					FU of Business Continuity
<b>Performance Management</b>	Council Plan monitor	I	Council Plan Monitor	S	Data Quality	S	Data Quality (Ongoing liaison)
<b>Legislative Compliance (DPA, FOI, PIDA, RIPA etc)</b>	IT Security (DPA),	S	Prevention F&C (PIDA)	S	Prevention F&C,	X	PCIS Compliance
	Prevention F&C (PIDA and Moneylaundering)	I			IT External Assurance	S	
					HR Data Security	S	
					CRC	X	

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